

SOUTH HAVEN HOUSING COMMISSION
SOUTH HAVEN, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------|---|---------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name South Haven Housing Commission | County Van Buren |
| Fiscal Year End 06/30/2006 | Opinion Date 10/19/2006 | Date Audit Report Submitted to State December 18, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

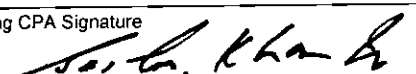
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Sailor, Khan & Co., LLC | | Telephone Number 314-726-3308 | |
| Street Address P.O. Box 16180 | | City St. Louis | State MO |
| Zip 63105 | | | |
| Authorizing CPA Signature  | | Printed Name Shah I Khan | License Number 1102001772 |

SOUTH HAVEN HOUSING COMMISSION
South Haven, Michigan

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Sailor

Certified Public Accountants

Khan & Co. LLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
South Haven Housing Commission
South Haven, Michigan

We have audited the accompanying basic financial statements of the South Haven Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

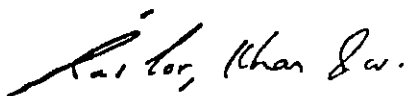
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the South Haven Housing Commission, Michigan, as of June 30, 2006, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages ii to vi is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information including the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Sailor, Khan & Co. LLC
October 19, 2006

South Haven Housing Commission

Management's Discussion and Analysis (MD&A)

June 30, 2006

(Unaudited)

This section of the South Haven Housing Commission, Michigan's (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of June 30, 2006 were \$3,638,316. The net assets decreased by \$162,120, a decrease of 4.3% from the prior year.

Revenues and contributions for the Commission were \$743,943 for the year ended June 30, 2006. This was a decrease of \$70,619 or 8.7% from the prior year.

Expenses for the Commission were \$906,846 for the year ended June 30, 2006. Expenses increased \$16,831, an increase of 1.9% over the prior year.

Rental revenue for the Commission was \$344,649 for the year ended June 30, 2006, an increase of \$16,415 or 5.0% over the prior year. HUD operating grants for the Commission was \$174,566 for the year ended June 30, 2006, an increase of \$19,147 or 12.3% over the prior year. Revenue reported from capital contributions for the year ended June 30, 2006 were \$87,898, a decrease of \$159,974 or 64.5% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

Management's Discussion and Analysis (MD&A) - Continued

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2006 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$3,638,316 at the close of the year ended June 30, 2006 down from \$3,800,436 in fiscal year 2005.

Current and other assets include cash, investments, receivables, and prepaid expenses. Of the \$60,279 increase in this category, cash and investments increased \$43,060, receivables increased \$21,369, and prepaid expenses decreased \$4,150.

Capital assets decreased \$232,022 because current year depreciation expense and disposals exceeded current year capital asset additions. Change in capital assets is explained in section titled "Capital Asset" of this analysis.

The unrestricted net assets were \$423,928 as of June 30, 2006. This amount may be used to meet the Commission's ongoing obligations. The Commission has sufficient funds to meet requirements for cash outlays for eight months. The Commission did not have any net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF NET ASSETS
JUNE 30**

| | <u>2006</u> | <u>2005</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|----------------------------|---------------------|---------------------|--------------------------|---------------------------|
| Current and other assets | \$ 519,272 | \$ 458,993 | \$ 60,279 | 13.1% |
| Capital assets | <u>3,214,388</u> | <u>3,446,410</u> | <u>(232,022)</u> | -6.7% |
| Total Assets | <u>3,733,660</u> | <u>3,905,403</u> | <u>(171,743)</u> | -4.4% |
| Current liabilities | 85,896 | 103,266 | (17,370) | -16.8% |
| Noncurrent liabilities | <u>9,448</u> | <u>1,701</u> | <u>7,747</u> | 455.4% |
| Total Liabilities | <u>95,344</u> | <u>104,967</u> | <u>(9,623)</u> | -9.2% |
| Net Assets | | | | |
| Invested in capital assets | 3,214,388 | 3,446,410 | (232,022) | -6.7% |
| Unrestricted | <u>423,928</u> | <u>354,026</u> | <u>69,902</u> | 19.7% |
| Total Net Assets | <u>\$ 3,638,316</u> | <u>\$ 3,800,436</u> | <u>\$ (162,120)</u> | -4.3% |

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

The 2004 approved capital grant (501-04) totals \$192,293 and was 76.6% expended as of June 30, 2006. The following is a summary of individual grant line items, budget amount, percent expended as of June 30, 2006, and development account:

| <u>Line No.</u> | <u>Amount</u> | <u>Percent</u> | <u>Development Account</u> |
|-----------------|---------------|----------------|----------------------------|
| 1406 | \$ 14,500 | 100.0% | Operations |
| 1410 | \$ 24,000 | 100.0% | Administration |
| 1450 | \$ 19,632 | 0.0% | Site Improvements |
| 1460 | \$ 133,161 | 81.6% | Dwelling Structures |
| 1470 | \$ 1,000 | 0.0% | Non dwelling Structures |

The 2005 approved capital grant (501-05) totals \$184,747 and was 20.0% expended as of June 30, 2006. The following is a summary of individual grant line items, budget amount, percent expended as of June 30, 2006, and development account:

| <u>Line No.</u> | <u>Amount</u> | <u>Percent</u> | <u>Development Account</u> |
|-----------------|---------------|----------------|----------------------------|
| 1406 | \$ 14,500 | 100.0% | Operations |
| 1410 | \$ 24,000 | 93.3% | Administration |
| 1430 | \$ 8,140 | 0.0% | Fees & Costs |
| 1450 | \$ 54,007 | 0.0% | Site Improvements |
| 1460 | \$ 69,100 | 0.0% | Dwelling Structures |
| 1475 | \$ 15,000 | 0.0% | Non dwelling Equipment |

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page, total revenues and contributions decreased \$70,619 mainly due to a decrease in capital contributions of \$159,974. Revenue reported from capital contributions was higher in FY 2005 because the Commission had a major renovation of one of its single family homes, Unit #41, beginning with lead abatement. The contractors started in September 2004 and the draws continued to June 2005, closing out the 2002 and 2003 Capital Funds.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS JUNE 30

| | 2006 | 2005 | Dollar Change | Percent Change |
|---|---------------------|---------------------|---------------------|-------------------|
| Revenues and Contributions | | | | |
| Operating - non-operating -capital contributions: | | | | |
| Rental revenue | \$ 344,649 | \$ 328,234 | 16,415 | 5.0% |
| HUD operating grants | 174,566 | 155,419 | 19,147 | 12.3% |
| Interest income | 17,792 | 10,490 | 7,302 | 69.6% |
| Capital Contributions | 87,898 | 247,872 | (159,974) | -64.5% |
| Other income | 22,622 | 41,199 | (18,577) | -45.1% |
| Gain on sale of fixed assets | 96,416 | 31,348 | 65,068 | 207.6% |
| Total Revenues and Contributions | <u>743,943</u> | <u>814,562</u> | <u>(70,619)</u> | -8.7% |
| Expenses | | | | |
| Personal services | 366,857 | 360,231 | 6,626 | 1.8% |
| Utilities | 67,031 | 62,003 | 5,028 | 8.1% |
| Operations and maintenance | 76,770 | 76,930 | (160) | -0.2% |
| Non routine maintenance | ---- | 514 | (514) | -100.0% |
| Insurance | 34,378 | 32,893 | 1,485 | 4.5% |
| Payment in lieu of taxes | 25,054 | 27,164 | (2,110) | -7.8% |
| Other supplies and expenses | 35,867 | 35,132 | 735 | 2.1% |
| Depreciation | 300,889 | 295,148 | 5,741 | 1.9% |
| Total Expenses | <u>906,846</u> | <u>890,015</u> | <u>16,831</u> | 1.9% |
| Change in net assets | (162,903) | (75,453) | (87,450) | |
| Beginning net assets | 3,800,436 | 3,875,889 | (75,453) | |
| Prior period adjustments | <u>783</u> | <u>---</u> | <u>783</u> | |
| Beginning net assets, adjusted | <u>3,801,219</u> | <u>3,875,889</u> | <u>(74,670)</u> | |
| Ending net assets | <u>\$ 3,638,316</u> | <u>\$ 3,800,436</u> | <u>\$ (162,120)</u> | |

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

Gain on sale of fixed assets was higher in FY 2006 because the Commission sold three homes. The Commission sold one home in FY 2005.

Total expenses increased \$16,831 mainly due to an increase in personal services and utilities. Of the \$6,626 increase in personal services, salaries and wages decreased \$2,236 and employee benefits increased \$8,862. Of the \$5,028 increase in utilities, water increased \$767, electricity decreased \$192 and gas increased \$4,453.

The Commission currently owns and manages Public Housing units. The occupancy level for this project was 100.0% in FY 2006, up from 98.7% in FY 2005. Elderly Public Housing has 2 two-bedroom, 18 efficiency one-bedroom, and 60 one-bedroom units. Family Housing has 2 two-bedroom houses and 42 three-bedroom family homes. The Commission rents one of the one-bedroom elderly units to a Senior Services Agency and utilizes one of the three-bedroom family homes as a community police substation.

CAPITAL ASSET

Capital Assets - The South Haven Housing Commission's investment in capital assets, net of related debt, as of June 30, 2006 amounts to \$3,214,388 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

The total decrease in the Commission's capital assets for the current fiscal year was 6.7% in terms of net book value. Actual expenditures to purchase or construct capital assets from revenues and capital contributions were \$89,609 for the year. In FY 2006 the Commission received cash proceeds of \$117,078 from the sale of three homes with a book value of \$19,178 and also disposed of assets with a book value of \$1,484. The Commission has various contract commitments with contractors for the implementation of the HUD capital grants as outlined by the HUD approved Capital Grant Budget. Depreciation charges for the year totaled \$300,889. The Commission has \$192,925 available in capital funds to draw down and spend in the future. Additional information on the Commission's capital assets can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioners and Management of the Housing Commission considered many factors when approving the FY 2007 Public Housing budget. The user charges are based on a tenant's income as established by HUD guidelines and are not adjustable. Operating subsidy is based on occupied units and approved vacancies, utility consumption and rates, approved add-ons, formula income, and transition funding. The amount of funding is also established and approved by HUD. Formula income is based on rental income from the Commission's fiscal year ended June 30, 2004 and will not be adjusted until 2009. Operating expenses are expected to increase by the economy's inflation rate.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Judi Ransom, Executive Director, South Haven Housing Commission, 220 Broadway, South Haven, Michigan 49090.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current Assets:

| | |
|---------------------------------|-------------------|
| Cash and cash equivalents | \$ 114,916.02 |
| Investments | 349,995.87 |
| Receivable - net of allowances: | |
| Accounts | 37,940.73 |
| Accrued interest | 258.17 |
| Prepaid expenses | <u>16,161.26</u> |
| Total Current Assets | <u>519,272.05</u> |

Noncurrent Assets:

Capital assets:

| | |
|--|------------------------|
| Land, improvements, and construction in progress | 324,959.29 |
| Other capital assets, net of depreciation | <u>2,889,428.56</u> |
| Total capital assets- net | <u>3,214,387.85</u> |
| Total Noncurrent Assets | <u>3,214,387.85</u> |
| Total Assets | <u>\$ 3,733,659.90</u> |

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2006

LIABILITIES

Current Liabilities:

| | |
|--------------------------------------|-----------------|
| Accounts Payable | \$ 31,724.49 |
| Accrued salaries, wages and benefits | 6,867.55 |
| Accrued compensated absences | 9,448.47 |
| Tenant security deposit liability | 33,966.15 |
| Deferred revenues | <u>3,888.84</u> |

Total Current Liabilities 85,895.50

Noncurrent Liabilities:

| | |
|------------------------------|-----------------|
| Accrued compensated absences | <u>9,448.47</u> |
|------------------------------|-----------------|

Total Noncurrent Liabilities 9,448.47

Total Liabilities 95,343.97

NET ASSETS

| | |
|----------------------------|-------------------|
| Invested in capital assets | 3,214,387.85 |
| Unrestricted | <u>423,928.08</u> |

Total Net Assets 3,638,315.93

Total Liabilities and Net Assets \$ 3,733,659.90

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended June 30, 2006

Operating Revenues:

| | |
|---------------------------------|------------------|
| Rental revenue | \$ 344,648.71 |
| Operating subsidies- HUD grants | 174,566.38 |
| Other revenues | <u>22,621.81</u> |

Total operating revenues 541,836.90

Operating Expenses:

| | |
|-----------------------------|-------------------|
| Personal services | 366,857.00 |
| Utilities | 67,030.51 |
| Operations and maintenance | 76,770.03 |
| Insurance | 34,378.27 |
| Payment in lieu of taxes | 25,054.24 |
| Other supplies and expenses | 35,866.93 |
| Depreciation | <u>300,889.28</u> |

Total operating expenses 906,846.26

Operating income (loss) (365,009.36)

Non-operating revenues (expenses):

| | |
|-------------------------------------|------------------|
| Interest and investment earnings | 17,792.31 |
| Gain (Loss) on sale of fixed assets | <u>96,415.82</u> |

Net non-operating revenues (expenses) 114,208.13

Income (loss) before other revenues, expenses,
gains, losses and transfers (250,801.23)

Capital contributions 87,897.80

Change in net assets (162,903.43)

Net assets at beginning of year 3,800,436.12
Prior period error corrections 783.24

Net assets adjusted at beginning of year 3,801,219.36

Net assets at end of year \$ 3,638,315.93

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2006

Cash flows from operating activities:

| | |
|--|--------------------|
| Cash received from tenants | \$ 345,789.34 |
| Cash received from HUD grants- operating | 174,566.38 |
| Cash received from other operating activities | 22,621.81 |
| Cash payments for goods and services | (209,348.83) |
| Cash payments to employees-salaries | (271,531.59) |
| Cash payments to employees-compensated absences | (6,703.02) |
| Cash payments for employee benefit contributions | (93,082.52) |
| Cash payments for in lieu of property taxes | <u>(27,163.69)</u> |

Net cash provided (used) by operating activities (64,852.12)

Cash flows from capital and related financing activities:

| | |
|---|--------------------|
| Capital contributions | 64,440.42 |
| Proceeds from sale of assets | 117,077.90 |
| Receipts (payments) from deferred credits and escrow deposits | (470.00) |
| Payments for capital assets | <u>(89,608.81)</u> |

Net cash (used) for capital and related financing activities 91,439.51

Cash flows from investing activities:

| | |
|---|-------------------|
| Proceeds from sale of (payments) for investments | (3,874.95) |
| Interest and dividends | 18,024.77 |
| Receipts (payments) from tenant security deposits | <u>(2,335.00)</u> |

Net cash provided (used) from investing activities 11,814.82

| | |
|--|---------------|
| Net increase (decrease) in cash and cash equivalents | 38,402.21 |
| Cash and cash equivalents at beginning of year | 75,730.57 |
| Adjustments to beginning cash- error correction | <u>783.24</u> |

Cash and cash equivalents at beginning of year- adjusted 76,513.81

Cash and cash equivalents at end of year \$ 114,916.02

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended June 30, 2006

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

| | |
|---|-----------------------|
| Operating income (loss) | \$ (365,009.36) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 300,889.28 |
| Changes in assets and liabilities: | |
| Receivables | 1,856.54 |
| Prepaid expenses | 4,149.61 |
| Accounts and other payables | (1,562.15) |
| Deferred revenues | (715.91) |
| Compensated absences | (5,618.77) |
| Accrued expenses | <u>1,158.64</u> |
| Net cash provided (used) by operating activities | <u>\$ (64,852.12)</u> |

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies

The South Haven Housing Commission (Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1a. Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government: Housing Commission

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB no 39, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1b. Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Commission's programs as an enterprise fund.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Ib. Basis of Presentation (Continued)

Following is a description of the Commission's programs:

| Program | Brief Description |
|----------------------|--|
| Low Rent | Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units. |
| Capital Fund Program | Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments. |

1c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

- ▶ The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Budgets and Budgetary Accounting

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | | |
|---|---------|-------|
| Buildings | 20 - 40 | years |
| Furniture, equipment and machinery - dwelling | 7 | years |
| Furniture, equipment and machinery - administration | 5 - 7 | years |
| Leasehold improvements | 5 - 40 | years |

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Commission had no related debt.
- b. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

NOTE 2 - Stewardship, Compliance, and Accountability

The Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Commission's compliance with significant laws and regulations and demonstration of its stewardship over Commission resources follows.

2a. Program Accounting Requirements

The Commission's complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Commission are as follows:

| Program | Required By |
|---------------------------|--|
| Public and Indian Housing | U.S. Department of Housing and Urban Development |
| Capital Fund Program | U.S. Department of Housing and Urban Development |

2b. Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Commission must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - Stewardship, Compliance, and Accountability (Continued)

2c. Revenue Restrictions

The Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

| <i>Revenue Source</i> | <i>Legal Restrictions of Use</i> |
|-----------------------|----------------------------------|
| Capital Fund Program | Modernization |

For the year ended June 30, 2006, the Commission complied, in all material respects, with these revenue restrictions.

NOTE 3 - Detail Notes on Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3a. Cash and Investments

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it or the Commission will not be able to recover collateral securities in the possession of an outside party. As of June 30, 2006, the Commission's bank balances of \$122,876.13, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Commission's name.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3a. Cash and Investments (Continued)

Investments

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2006, the Commission's investments were \$349,995.87. These investments were insured by federal depository insurance or registered, or securities held by the Commission or its agent in the Commission's name.

Credit Risk Investments, Concentrations of Credit Risk and Interest Rate Risk - Investments:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission will minimize credit risk by reviewing the financial institutions with which the Commission will do business so that potential losses on individual securities will be minimized.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Commission will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements and investing operating funds primarily in shorter term securities.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer. The Commission does not have a written investment policy covering concentration of credit risk.

3b. Accounts Receivable

Receivables detail at June 30, 2006, is as follows:

| | |
|-----------------------------------|---------------------|
| Tenant accounts receivable | \$ 1,039.80 |
| Allowance for doubtful accounts | <u>----</u> |
| Tenants accounts receivable - net | 1,039.80 |
| Accounts receivable - HUD | <u>36,900.93</u> |
| | <u>\$ 37,940.73</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

| | <u>Balance July 1, 2005</u> | | <u>Additions</u> | | <u>(Retirements)</u> | | <u>Balance June 30, 2006</u> |
|---|-------------------------------------|----|-------------------|----|----------------------|----|--------------------------------------|
| Land | \$ 229,451.75 | \$ | ----- | \$ | (14,498.13) | \$ | 214,953.62 |
| Building | 6,198,390.85 | | 1,632.08 | | (46,792.21) | | 6,153,230.72 |
| Furniture, equipment and machinery- administration | 81,311.02 | | ----- | | (559.11) | | 80,751.91 |
| Leasehold improvements | 558,465.71 | | ----- | | (7,083.04) | | 551,382.67 |
| Construction in progress | <u>22,107.87</u> | | <u>87,897.80</u> | | <u>-----</u> | | <u>110,005.67</u> |
| | 7,089,727.20 | \$ | <u>89,529.88</u> | \$ | <u>(68,932.49)</u> | | 7,110,324.59 |
| Accumulated depreciation | <u>3,643,317.07</u> | \$ | <u>300,889.28</u> | \$ | <u>(48,269.61)</u> | | <u>3,895,936.74</u> |
| Total | <u>\$ 3,446,410.13</u> | | | | | \$ | <u>3,214,387.85</u> |

3d. Accounts Payable

Payable detail at June 30, 2006, is as follows:

| | |
|---|---------------------|
| Accounts payable - vendors | \$ 6,670.25 |
| Accounts payable - other government - PILOT | <u>25,054.24</u> |
| | <u>\$ 31,724.49</u> |

3e. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at June 30, 2006 is \$18,896.94.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3f. Non-current Liabilities

As of June 30, 2006, the non-current liabilities are comprised of the following:

| | |
|--|---------------------------|
| Accrued compensated absences - non current portion | \$ <u>9,448.47</u> |
| Total | \$ <u><u>9,448.47</u></u> |

The following is a summary of changes in non-current liabilities for the year ended June 30, 2006:

| | <u>Balance June 30, 2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2006</u> | <u>Amounts Due within One Year</u> |
|------------------------------|--------------------------------------|--------------------|-------------------|--------------------------------------|--|
| Deferred credits | \$ 470.00 | \$ ---- | \$ 470.00 | \$ ---- | \$ ---- |
| Accrued compensated absences | <u>1,230.66</u> | <u>8,217.81</u> | <u>----</u> | <u>9,448.47</u> | <u>9,448.47</u> |
| Total | <u>\$ 1,700.66</u> | <u>\$ 8,217.81</u> | <u>\$ 470.00</u> | <u>\$ 9,448.47</u> | <u>\$ 9,448.47</u> |

3g. Interprogram Transactions and Balances

Operating Transfers

| | <u>Transfers in</u> | <u>Transfers out</u> |
|--------------------------------------|-------------------------|--------------------------|
| Public and Indian Housing - Low Rent | \$ 14,500.00 | \$ ---- |
| Capital Fund Program | <u>----</u> | <u>14,500.00</u> |
| Total | <u>\$ 14,500.00</u> | <u>\$ 14,500.00</u> |

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations.

Interprogram Receivable/Payable

| | |
|--------------------------------------|--------------------|
| Public and Indian Housing - Low Rent | \$ 36,455.25 |
| Capital Fund Program | <u>(36,455.25)</u> |
| Total | <u>\$ ----</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3h. Unrestricted net assets - Prior-period Error Corrections

Following is the composite of error corrections:

| | |
|--|-------------------------|
| 1. Cash - correct prior year check write off | \$ <u>783.24</u> |
| Totals | \$ <u><u>783.24</u></u> |

NOTE 4 - Other Notes

4a. Employee Retirement Plan

The Housing Commission participates in the City of South Havens' pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2005, the date of the last completed actuarial evaluation, the City's Department Heads category (the Housing Commission is included) termination liability for retirement benefits is \$4,454,519 (employer and employee combined). Valuation assets available to meet this obligation were \$5,214,699. The Department Heads (which includes the Housing Commission) employees contributed \$619,934 and the employer did not have to contribute during the calendar year 2004. The City's Department Heads (which includes the Housing Commission) has twenty six (26) active members, one (1) vested former member, and fifteen (15) retirees and beneficiaries. There is an over fund balance of \$1,086,140 as of December 31, 2005. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual plan.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - Other Notes (Continued)

4b. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Commission manages these various risks of loss as follows:

| Type of Loss | Method Managed |
|---|--|
| a. Torts, errors and omissions | Purchased insurance with Housing Authority Insurance Group |
| b. Injuries to employees (workers' compensation) | Purchased insurance with Michigan Municipal League Worker's Compensation Fund; Claims are administered by Michigan Municipal League Worker's Compensation Fund |
| c. Physical property loss and natural disasters | Purchased commercial insurance with \$5,000 deductibles. |
| d. Health and life | Purchased health insurance with Blue Cross Blue Shield of Michigan; Life insurance is provided by Fortis Assurant. |

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4c. Commitments and Contingencies

Commitments—Construction

At June 30, 2006, the Commission had the following pending construction projects in progress:

| | <u>Funds Approved</u> | <u>Funds Expended - Project to Date</u> |
|------------|---------------------------|---|
| CFP 501-04 | \$ 192,293.00 | 147,213.70 |
| CFP 501-05 | 184,747.00 | 36,900.93 |
| | <u>\$ 377,040.00</u> | <u>\$ 184,114.63</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - Other Notes (Continued)

4c. Commitments and Contingencies

Contingencies

The Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

Contingent Notes Receivable

The South Haven Housing Commission, in order to protect its interest in the dwelling units sold and achieve certain program goals, will obtain from the homebuyers a second mortgage. The total amount of these second mortgages total \$145,780.00.

The terms of the second mortgage will be the following:

- a. The amount of the second mortgage will initially be the difference in value between the appraised value and the amount of the first mortgage and the appraised value of the dwelling structure.
- b. The second mortgage is between the buyer and the South Haven Housing Commission; no interest will be charged.
- c. The term will extend 10 years from the date on which all sale documents are signed and agreements have been lawfully executed.
- d. The second mortgage balance will become due and payable if the homebuyer fails to abide by any of the following situations within this ten year period:
 - i) Defaults on the first mortgage
 - ii) Sells the house
 - iii) Moves out of the house
 - iv) Unit is damaged and under an insurance claim is a total loss

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - Other Notes (Continued)

4c. Commitments and Contingencies (Continued)

Contingent Notes Receivable (Continued)

The second mortgage will be due in the following amounts in the event that one of the aforementioned criteria occurs

| <u>Years of Payments Made</u> | <u>% of 2nd Mortgage</u> <u>Payable</u> |
|-------------------------------|--|
| 0-5 | 100% |
| 6 | 50% |
| 7 | 40% |
| 8 | 30% |
| 9 | 20% |
| 10 | 10% |
| 11+ | 0% |

- e. Homebuyer must purchase and maintain homeowners insurance for the full appraised value of the home for the entire term of the second mortgage (10 years).

There were three dwelling units that were sold during the fiscal year ended June 30, 2006. Proceeds from these sales were \$117,780.70.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM

June 30, 2006

| | <u>Low Rent Program</u> | <u>Capital Fund Program</u> | <u>Totals</u> |
|--|-----------------------------|---------------------------------|------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 114,916.02 | \$ ---- | \$ 114,916.02 |
| Investments | 349,995.87 | ---- | 349,995.87 |
| Receivable - net of allowances: | | | |
| Accounts | 1,039.80 | 36,900.93 | 37,940.73 |
| Accrued interest | 258.17 | ---- | 258.17 |
| Due from (to) interprogram | 36,455.25 | (36,455.25) | ---- |
| Prepaid expenses | <u>16,161.26</u> | <u>----</u> | <u>16,161.26</u> |
| Total Current Assets | <u>518,826.37</u> | <u>445.68</u> | <u>519,272.05</u> |
| Noncurrent Assets: | | | |
| Capital assets: | | | |
| Land, improvements, and construction in progress | 214,953.62 | 110,005.67 | 324,959.29 |
| Other capital assets, net of depreciation | <u>2,889,428.56</u> | <u>-----</u> | <u>2,889,428.56</u> |
| Total capital assets- net | <u>3,104,382.18</u> | <u>110,005.67</u> | <u>3,214,387.85</u> |
| Total Noncurrent Assets | <u>3,104,382.18</u> | <u>110,005.67</u> | <u>3,214,387.85</u> |
| Total Assets | <u>\$ 3,623,208.55</u> | <u>\$ 110,451.35</u> | <u>\$ 3,733,659.90</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2006

| | Low Rent Program | Capital Fund Program | Totals |
|--------------------------------------|------------------------|-------------------------|------------------------|
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts Payable | \$ 31,724.49 | \$ ----- | \$ 31,724.49 |
| Accrued salaries, wages and benefits | 6,421.87 | 445.68 | 6,867.55 |
| Accrued compensated absences | 9,448.47 | ----- | 9,448.47 |
| Tenant security deposit liability | 33,966.15 | ----- | 33,966.15 |
| Deferred revenues | <u>3,888.84</u> | <u>-----</u> | <u>3,888.84</u> |
| Total Current Liabilities | <u>85,449.82</u> | <u>445.68</u> | <u>85,895.50</u> |
| Noncurrent Liabilities: | | | |
| Accrued compensated absences | <u>9,448.47</u> | <u>-----</u> | <u>9,448.47</u> |
| Total Noncurrent Liabilities | <u>9,448.47</u> | <u>-----</u> | <u>9,448.47</u> |
| Total Liabilities | <u>94,898.29</u> | <u>445.68</u> | <u>95,343.97</u> |
| NET ASSETS | | | |
| Invested in capital assets | 3,104,382.18 | 110,005.67 | 3,214,387.85 |
| Unrestricted | <u>423,928.08</u> | <u>-----</u> | <u>423,928.08</u> |
| Total Net Assets | <u>3,528,310.26</u> | <u>110,005.67</u> | <u>3,638,315.93</u> |
| Total Liabilities and Net Assets | <u>\$ 3,623,208.55</u> | <u>\$ 110,451.35</u> | <u>\$ 3,733,659.90</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM**

For Year Ended June 30, 2006

| | Low Rent Program | Capital Fund Program | Totals |
|---|------------------------|-------------------------|------------------------|
| Operating Revenues: | | | |
| Rental revenue | \$ 344,648.71 | \$ ----- | \$ 344,648.71 |
| Operating subsidies- HUD grants | 137,109.00 | 37,457.38 | 174,566.38 |
| Other revenues | <u>22,621.81</u> | <u>-----</u> | <u>22,621.81</u> |
| Total operating revenues | <u>504,379.52</u> | <u>37,457.38</u> | <u>541,836.90</u> |
| Operating Expenses: | | | |
| Personal services | 344,256.62 | 22,600.38 | 366,857.00 |
| Utilities | 67,030.51 | ----- | 67,030.51 |
| Operations and maintenance | 76,770.03 | ----- | 76,770.03 |
| Insurance | 34,378.27 | ----- | 34,378.27 |
| Payment in lieu of taxes | 25,054.24 | ----- | 25,054.24 |
| Other supplies and expenses | 35,509.93 | 357.00 | 35,866.93 |
| Depreciation | <u>300,889.28</u> | <u>-----</u> | <u>300,889.28</u> |
| Total operating expenses | <u>883,888.88</u> | <u>22,957.38</u> | <u>906,846.26</u> |
| Operating income (loss) | <u>(379,509.36)</u> | <u>14,500.00</u> | <u>(365,009.36)</u> |
| Non-operating revenues (expenses): | | | |
| Interest and investment earnings | 17,792.31 | ----- | 17,792.31 |
| Gain (Loss) on sale of fixed assets | <u>96,415.82</u> | <u>-----</u> | <u>96,415.82</u> |
| Net non-operating revenues (expenses) | <u>114,208.13</u> | <u>-----</u> | <u>114,208.13</u> |
| Income (loss) before other revenues, expenses, gains, losses and transfers | (265,301.23) | 14,500.00 | (250,801.23) |
| Capital contributions | ----- | 87,897.80 | 87,897.80 |
| Operating transfers in (out) | <u>14,500.00</u> | <u>(14,500.00)</u> | <u>-----</u> |
| Change in net assets | (250,801.23) | 87,897.80 | (162,903.43) |
| Net assets at beginning of year | 3,437,132.16 | 363,303.96 | 3,800,436.12 |
| Prior period error corrections | <u>783.24</u> | <u>-----</u> | <u>783.24</u> |
| Net assets adjusted at beginning of year | 3,437,915.40 | 363,303.96 | 3,801,219.36 |
| Equity transfers | <u>341,196.09</u> | <u>(341,196.09)</u> | <u>-----</u> |
| Net assets at end of year | <u>\$ 3,528,310.26</u> | <u>\$ 110,005.67</u> | <u>\$ 3,638,315.93</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended June 30, 2006

| | Low Rent Program | Capital Fund Program | Totals |
|--|---------------------|-------------------------|--------------------|
| Cash flows from operating activities: | | | |
| Cash received from tenants | \$ 345,789.34 | \$ ----- | \$ 345,789.34 |
| Cash received from HUD grants- operating | 137,109.00 | 37,457.38 | 174,566.38 |
| Cash received from other operating activities | 22,621.81 | ----- | 22,621.81 |
| Cash payments for goods and services | (208,991.83) | (357.00) | (209,348.83) |
| Cash payments to employees-salaries | (249,030.71) | (22,500.88) | (271,531.59) |
| Cash payments to employees-compensated absences | (6,703.02) | ----- | (6,703.02) |
| Cash payments for employee benefit contributions | (93,082.52) | ----- | (93,082.52) |
| Cash payments for in lieu of property taxes | (27,163.69) | ----- | (27,163.69) |
| Net cash provided (used) by operating activities | <u>(79,451.62)</u> | <u>14,599.50</u> | <u>(64,852.12)</u> |
| Cash flows from noncapital financing activities: | | | |
| Operating transfers in (out) | <u>14,500.00</u> | <u>(14,500.00)</u> | <u>-----</u> |
| Net cash provided (used) from non capital financing activities | <u>14,500.00</u> | <u>(14,500.00)</u> | <u>-----</u> |
| Cash flows from capital and related financing activities: | | | |
| Capital contributions | ----- | 64,440.42 | 64,440.42 |
| Receipts (payments) from interprograms | (23,437.61) | 23,437.61 | ----- |
| Proceeds from sale of assets | 117,078.70 | (0.80) | 117,077.90 |
| Receipts (payments) from deferred credits and escrow deposits | (470.00) | ----- | (470.00) |
| Payments for capital assets | (1,632.08) | (87,976.73) | (89,608.81) |
| Net cash (used) for capital and related financing activities | <u>91,539.01</u> | <u>(99.50)</u> | <u>91,439.51</u> |
| Cash flows from investing activities: | | | |
| Proceeds from sale of (payments) for investments | (3,874.95) | ----- | (3,874.95) |
| Interest and dividends | 18,024.77 | ----- | 18,024.77 |
| Receipts (payments) from tenant security deposits | (2,335.00) | ----- | (2,335.00) |
| Net cash provided (used) from investing activities | <u>11,814.82</u> | <u>-----</u> | <u>11,814.82</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2006

| | <u>Low Rent Program</u> | <u>Capital Fund Program</u> | <u>Totals</u> |
|---|-----------------------------|---------------------------------|-----------------------|
| Net increase (decrease) in cash and cash equivalents | 38,402.21 | ----- | 38,402.21 |
| Cash and cash equivalents at beginning of year | 75,730.57 | ----- | 75,730.57 |
| Adjustments to beginning cash- error correction | <u>783.24</u> | <u>-----</u> | <u>783.24</u> |
| Cash and cash equivalents at beginning of year- adjusted | <u>76,513.81</u> | <u>-----</u> | <u>76,513.81</u> |
| Cash and cash equivalents at end of year | \$ <u>114,916.02</u> | \$ <u>-----</u> | \$ <u>114,916.02</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ (379,509.36) | \$ 14,500.00 | \$ (365,009.36) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 300,889.28 | ----- | 300,889.28 |
| Changes in assets and liabilities: | | | |
| Receivables | 1,856.54 | ----- | 1,856.54 |
| Prepaid expenses | 4,149.61 | ----- | 4,149.61 |
| Accounts and other payables | (1,562.15) | ----- | (1,562.15) |
| Deferred revenues | (715.91) | ----- | (715.91) |
| Compensated absences | (5,618.77) | ----- | (5,618.77) |
| Accrued expenses | <u>1,059.14</u> | <u>99.50</u> | <u>1,158.64</u> |
| Net cash provided (used) by operating activities | \$ <u>(79,451.62)</u> | \$ <u>14,599.50</u> | \$ <u>(64,852.12)</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2006

| FDS Line Item No. | Low Rent Program 14.850a | Capital Fund Program 14.872 | Total |
|---|--------------------------------|-----------------------------------|------------------------|
| Assets: | | | |
| Current Assets: | | | |
| Cash | | | |
| 111 Cash-unrestricted | \$ 114,916.02 | \$ ----- | \$ 114,916.02 |
| 100 Total cash | <u>114,916.02</u> | <u>-----</u> | <u>114,916.02</u> |
| Accounts and notes receivable: | | | |
| 122 Accounts receivable-HUD | ----- | 36,900.93 | 36,900.93 |
| 126 Accounts receivable- tenants-dwelling rents | 1,039.80 | ----- | 1,039.80 |
| 129 Accrued interest receivable | <u>258.17</u> | <u>-----</u> | <u>258.17</u> |
| 120 Total receivables, net of allowance for doubtful accounts | <u>1,297.97</u> | <u>36,900.93</u> | <u>38,198.90</u> |
| Current investments: | | | |
| 131 Investments-unrestricted | 349,995.87 | ----- | 349,995.87 |
| 142 Prepaid expenses and other assets | 16,161.26 | ----- | 16,161.26 |
| 144/ | | | |
| (347) Interprogram due from | <u>36,455.25</u> | <u>(36,455.25)</u> | <u>-----</u> |
| 150 Total current assets | <u>518,826.37</u> | <u>445.68</u> | <u>519,272.05</u> |
| Noncurrent Assets: | | | |
| Fixed assets: | | | |
| 161 Land | 214,953.62 | ----- | 214,953.62 |
| 162 Buildings | 6,153,230.72 | ----- | 6,153,230.72 |
| 164 Furniture, equipment and machinery- administration | 80,751.91 | ----- | 80,751.91 |
| 165 Leasehold improvements | 551,382.67 | ----- | 551,382.67 |
| 166 Accumulated depreciation | (3,895,936.74) | ----- | (3,895,936.74) |
| 167 Construction in progress | <u>-----</u> | <u>110,005.67</u> | <u>110,005.67</u> |
| 160 Total fixed assets, net of accumulated depreciation | <u>3,104,382.18</u> | <u>110,005.67</u> | <u>3,214,387.85</u> |
| 180 Total noncurrent assets | <u>3,104,382.18</u> | <u>110,005.67</u> | <u>3,214,387.85</u> |
| 190 Total Assets | <u>\$ 3,623,208.55</u> | <u>\$ 110,451.35</u> | <u>\$ 3,733,659.90</u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

| FDS Line Item No. | Low Rent Program 14.850a | Capital Fund Program 14.872 | Total |
|--|---------------------------------|-----------------------------------|---------------------------------|
| Liabilities and Equity: | | | |
| Liabilities: | | | |
| Current Liabilities: | | | |
| 312 Accounts payable < 90 days | \$ (6,670.25) | \$ ----- | \$ (6,670.25) |
| 321 Accrued wage / payroll taxes payable | (6,421.87) | (445.68) | (6,867.55) |
| 322 Accrued compensated absences- current portion | (9,448.47) | ----- | (9,448.47) |
| 333 Accounts payable -other government | (25,054.24) | ----- | (25,054.24) |
| 341 Tenant security deposits | (33,966.15) | ----- | (33,966.15) |
| 342 Deferred revenues | <u>(3,888.84)</u> | <u>-----</u> | <u>(3,888.84)</u> |
| 310 Total current liabilities | <u>(85,449.82)</u> | <u>(445.68)</u> | <u>(85,895.50)</u> |
| Noncurrent Liabilities: | | | |
| 354 Accrued compensated absences- non current portion | <u>(9,448.47)</u> | <u>-----</u> | <u>(9,448.47)</u> |
| 350 Total noncurrent liabilities | <u>(9,448.47)</u> | <u>-----</u> | <u>(9,448.47)</u> |
| 300 Total liabilities | <u>(94,898.29)</u> | <u>(445.68)</u> | <u>(95,343.97)</u> |
| Equity: | | | |
| 508.1 Investment in capital assets , Net of Related Debt | <u>(3,104,382.18)</u> | <u>(110,005.67)</u> | <u>(3,214,387.85)</u> |
| 512.1 Unrestricted Net Assets | <u>(423,928.08)</u> | <u>-----</u> | <u>(423,928.08)</u> |
| 600 Total Liabilities and Equity | <u><u>\$ (3,623,208.55)</u></u> | <u><u>\$ (110,451.35)</u></u> | <u><u>\$ (3,733,659.90)</u></u> |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

| FDS Line Item No. | Low Rent Program 14.850a | Capital Fund Program 14.872 | Total |
|--|--------------------------------|-----------------------------------|---------------------|
| Revenue: | | | |
| 703 Net rental revenue | \$ (314,794.58) | \$ ----- | \$ (314,794.58) |
| 704 Tenant revenue-other | <u>(29,099.98)</u> | <u>-----</u> | <u>(29,099.98)</u> |
| 705 Total tenant revenue | <u>(343,894.56)</u> | <u>-----</u> | <u>(343,894.56)</u> |
| 706 HUD PHA operating grants | (137,109.00) | (37,457.38) | (174,566.38) |
| 706.1 HUD PHA capital grants | ----- | (87,897.80) | (87,897.80) |
| 711 Investment income-unrestricted | (17,792.31) | ----- | (17,792.31) |
| 715 Other revenue | (22,621.81) | ----- | (22,621.81) |
| 716 Gain on sale of fixed assets | <u>(96,415.82)</u> | <u>-----</u> | <u>(96,415.82)</u> |
| 700 Total revenue | <u>(617,833.50)</u> | <u>(125,355.18)</u> | <u>(743,188.68)</u> |
| Expenses: | | | |
| Administrative | | | |
| 911 Administrative salaries | 138,235.60 | 22,600.38 | 160,835.98 |
| 912 Auditing fees | 3,250.00 | ----- | 3,250.00 |
| 914 Compensated absences | 1,084.25 | ----- | 1,084.25 |
| 915 Employee benefit contributions-administrative | 51,450.78 | ----- | 51,450.78 |
| 916 Other operating-administrative | 22,240.37 | 357.00 | 22,597.37 |
| Tenant services | | | |
| 924 Tenant services-other | 3,468.88 | ----- | 3,468.88 |
| Utilities | | | |
| 931 Water | 11,173.63 | ----- | 11,173.63 |
| 932 Electricity | 25,426.27 | ----- | 25,426.27 |
| 933 Gas | 30,430.61 | ----- | 30,430.61 |
| Ordinary maintenance and operation | | | |
| 941 Ordinary maintenance and operation-labor | 111,854.25 | ----- | 111,854.25 |
| 942 Ordinary maintenance and operation-materials & other | 27,896.55 | ----- | 27,896.55 |
| 943 Ordinary maintenance and operation-contract costs | 48,873.48 | ----- | 48,873.48 |
| 945 Employee benefit contributions-ordinary maintenance | 41,631.74 | ----- | 41,631.74 |

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

| FDS Line Item No. | Low Rent Program 14.850a | Capital Fund Program 14.872 | Total |
|---|--------------------------------|-----------------------------------|------------------------|
| General expenses | | | |
| 961 Insurance premiums | 34,378.27 | ---- | 34,378.27 |
| 962 Other general expense | 6,550.68 | ---- | 6,550.68 |
| 963 Payments in lieu of taxes | 25,054.24 | ---- | 25,054.24 |
| 964 Bad debts- tenant rents | <u>(754.15)</u> | <u>----</u> | <u>(754.15)</u> |
| 969 Total operating expenses | <u>582,245.45</u> | <u>22,957.38</u> | <u>605,202.83</u> |
| 970 Excess (deficit) operating revenue over operating expenses | <u>35,588.05</u> | <u>102,397.80</u> | <u>137,985.85</u> |
| 974 Depreciation expense | <u>300,889.28</u> | <u>----</u> | <u>300,889.28</u> |
| Total expenses other than total operating | <u>300,889.28</u> | <u>----</u> | <u>300,889.28</u> |
| Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back | (265,301.23) | 102,397.80 | (162,903.43) |
| 1001 Operating transfers in | 14,500.00 | ---- | 14,500.00 |
| 1002 Operating transfers out | <u>-----</u> | <u>(14,500.00)</u> | <u>(14,500.00)</u> |
| Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back | <u>\$ (250,801.23)</u> | <u>\$ 87,897.80</u> | <u>\$ (162,903.43)</u> |

Khan & Co. LLC

**Report on Compliance and on Internal Control Over Financial Reporting Based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Commissioners
South Haven Housing Commission
South Haven, Michigan

We have audited the financial statements of the South Haven Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

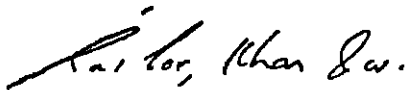
Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the South Haven Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC
October 19, 2006

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2006

The prior audit report for the year ended June 30, 2005 contained no audit findings.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended June 30, 2006 disclosed no Financial Statement audit findings.

QUESTIONED COSTS

None